

Message Text

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ACTION NEA-11

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FM AMEMBASSY TEHRAN

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E.O. 11652: N/A

TAGS: BBAK, IR

SUBJ: UNION CARBIDE OF U.S. TO LIQUIDATE ITS INVESTMENT

IN IRAN

1. BACKGROUND. UNION CARBIDE OF THE U.S. BOUGHT A DRY BATTERY PLANT IN TEHRAN FROM ITT IN 1969 BUT PROFITABILITY OF THE ENTERPRISE HAS BEEN MARGINAL FROM THE OUTSET. UNION CARBIDE IRAN HAS NEVER BEEN ABLE TO RAISE ITS MARKET SHARE OF FLASHLIGHT BATTERIES BEYOND 25 PERCENT AND THE ENTERPRISE HAS BEEN MORE OR LESS OVERSHADOWED BY ELECTRIC STORAGE BATTERY OF THE U.S. JOINT VENTURE WITH THE BARKHODAR INTERESTS (RAY-O-VAC). UNION CARBIDE'S PLANT IS TOO SMALL AND IS BADLY LAID OUT. APART FROM THE USUAL DELAYS IN GETTING PRICE INCREASES FROM THE GOI AND A TAX ASSESSMENT PROBLEM WHICH HAS EVIDENTLY BEEN PARTIALLY RESOLVED, UNION CARBIDE HAS HAD NO PARTICULAR PROBLEMS OVER THE YEARS WITH THE GOI. THE AMERICAN COMPANY'S CORPORATE HEADQUARTERS IN NEW YORK HAS CONSIDERED IN RECENT MONTHS BOTH ADDITIONAL INVESTMENT TO EXPAND PRODUCTION TO A MORE ECONOMIC LEVEL AND SELLING THE PLANT ALTOGETHER. END BACKGROUND.

2. W.F. WASSMAN, ACCCOMPANIED BY UNION CARBIDE ATTORNEY FROM

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NEW YORK,MR. CHARLES F. RAEBURN, INFORM E/C COUNSELOR ON MAY 9 THAT UNION CARBIDE HAS NOW DECIDED TO DISINVEST IN IRAN. REPRESENTATIVES FROM UNION CARBIDE HEADQUARTERS INFORMED DEPUTY MINISTER OF INDUSTRY AND MINES (JARABJI), IN THE ABSENCE OF MINISTER REZA AMIN, THAT UNION CARBIDE HD DECIDED TO SELL THE PLANT TO WHATEVER IRANIAN OR FOREIGN INTERESTS MIGHT BE INTERESTED IN ACQUIRING THE VENTURE. UNION CARBIDE REPS SAID THAT THE

COMPANY HAD RELUCTANTLY COME TO THE CONCLUSION THAT AN ADDITIONAL INVESTMENT COULD NOT BE JUSTIFIED. GIVEN THE DOMINANT POSITION OF THE COMPETITOR (ELECTRIC STORAGE BATTER-BARKHODAR JOINT VENTURE), LIQUIDATION OF UNION CARBIDE'S INVESTMENT (100 PERCENT OF THE ENTERPRISE) WAS THE ONLY POSSIBLE REALISTIC DECISION. DEPUTY MINISTER JARABJI TOOK NO REPEAT NO EXCEPTION TO PRESENTATION MADE BY UNIONCARBIDE REPS AND SAID HE WOULD INFORM HIS MINISTER.

3. UNION CARBIDE'S LOCAL REP ASKED EMBOFF WHAT GOI'S REACTION IN THE UPPER ECHELONS MIGHT BE AND HOW UNION CARBIDE SHOULD COMPORT ITSELF IN SELLING OFF ITS ASSETS, UNION CARBIDE REPS WERE TOLD THAT SINCE THERE WAS NO APPARENT ANIMOSITY ON GOI SIDE AS TO UNION CARBIDE'S PERFORMANCE HERE, THEN COMPANY SHOULD PLAY MATTER IN LOW KEY AND BE GUIDED BY ORDINARY BUSINESS JUDGEMENTS. EMBOFF SUGGESTED THAT MINISTER AMIN BE INFORMED AT ONCE IN WRITING OF COMPANY'S DECISION AND REQUEST GUIDANCE FROM MINISTER ON SUBSEQUENT STEPS UNION CARBIDE SHOULD TAKE AS REGARDS SEVERANCE BENEFITS TO WORKERS (IF PLANT IS CLOSED BEFORE NEW BUYER CAN BE FOUND), COMPANY SHOULD STATE ITS WILLINGNESS TO PAY SEVERANCE BENEFITS REQUIRED UNDER GOI LAW (15 DAYS SALARY FOR EACH YEAR WORKED), AND AWAIT MINISTRY OF LABOR RESPONSE. BOTH UNION CARBIDE REPS AND EMBOFF WERE OF OPINION THAT MINISTRY MIGHT TRY TO EXACT LARGER SEVERANCE BENEFITS FOR WORKERS AND THAT SOME NEGOTIATIONS WITH MINISTRY ON THIS POINT MIGHT ENSUE. TAX AUTHORITIES COULD BE EXPECTED TO ENTER PICTURE AT SOME POINT AND

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COMPANY SHOULD SEEK COUNSEL OF ITS ATTORYNEYS AND AUDITORS.

4. THE VALUE OF ASSETS UNION CARBIDE IRAN (LAND, MACHINERY, INVENTORIES) PROBABLY IN NEIGHBORHOOD OF 10-15 MILLION DOLLARS BUT UNION CARBIDE REPS EMPHASIZED THIS A VERY TENTATIVE AND OFF-THE-WALL ESTIMATE. MR. WASSMAN THOUGHT THAT ESB-BARKHODAR JOINT VENTURE MIGHT WELL BE INTERESTED IN ACQUIRING PLANT AND HE WONDERED WHETHER GOI WOULD PERMIT 100 PERCENT MONOPOLY POSITION BY BARKHODAR INTERESTS. THE COMPANY'S MANAGEMENT HAS INFORMED WORKERS AND STAFF OF DECISION TO SELL THE COMPANY BUT THERE WILL BE NO PUBLIC ANNOUNCEMENT.

5. EMBASSY WILL KEEP DEPARTMENT INFORMED OF DEVELOPMENTS AS THEY OCCUR.

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